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# **The Economic Philosophies of Marshall, Pigou and J. A. Hobson.**

BY

**Ratish Mohan Agarwala, M. A., LL. B.**

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**DEDICATED  
TO  
THE MEMORY OF  
J. A. HOBSON  
THE GREAT PHILOSOPHER OF HAMPSTEAD,  
IN WHOM  
THE WORLD HAS LATELY LOST  
ITS  
MOST POWERFUL AND VIGOROUS THINKER  
OF RECENT TIMES  
IN THE FIELD OF  
"SOCIAL ECONOMICS"  
AND  
THE OTHER ALLIED BRANCHES  
OF THE SOCIAL SCIENCES.**

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**OPINIONS**  
**ON**  
**The Published and the Unpublished**  
**Works**  
**OF**  
**Ratish Mohan Agarwala M. A., LL. B.**

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**I. PUBLISHED WORK.**

[ "*Roads to Freedom and Slavery*", (1924) ]

"The book holds out great promise regarding the author's career as a writer on economic subjects."—The "Modern Review", (Calcutta), January 1925.

**II. UNPUBLISHED WORK.**

[ "*The Theory of Normative Economics*,"  
*comprising the Seventh Part of the*  
*Author's forthcoming publication,*  
*"The Science of Economics". ]*

"It is an exceedingly able piece of work"  
J. A. Hobson in a letter to the Registrar, Allahabad  
University, in 1933.

**"The substance and form of your reasoning seemed to me to be excellent".—J. A. Hobson in a letter to the Author, dated the 15th. of April, 1935.**

**"The magnificent scope and stretch of your arguments fills me with admiration.....I hope that when published your work will receive the attention it deserves."—J. A. Hobson in a letter to the Author, dated the 17th. of January, 1938.**

**"The treatment of Pigou is interesting".—Dr. E. R. A. Seligman (U.S.A.) in a letter to the Registrar, Allahabad University, in 1934.**

**Some foreign Economists "had praised it in glowing terms".—Dr. B. N. Kaul, M.A., Ph.D., (London), Economic Expert to the "League of Nations", in a letter to the Author, dated the 9th. of June, 1937.**

**"I believe there would be few Economists in India who would be possessing the same extensive and close knowledge of the economic literature on this aspect of the subject as does Mr. Agarwala."—Prof. S. K. Rudra, M.A. (Cantab.), Head of the Economics Department, University of Allahabad, in a testimonial issued to the Author on the 29th. of June, 1931.**



# **“The Science of Economics”**

**(in the light of a wholly new discovery with regard to  
its Concrete and Psycho-Ethical Backgrounds.)**

**BY**

**Ratish Mohan Agarwala M. A., LL. B.**

**The result of full seventeen years' Researches  
in England and India.**

*(To be shortly released for publication.)*



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## PREFACE.

"The Economic Philosophies of Marshall, Pigou and J. A. Hobson" gives a short exposition, *in the light of my resarches*, of the Economic Philosophies of the three greatest Economists that the world has produced during the course of the last half-century. All these Economic Philosophies, it may be observed, are constructed on a wholly "Concrete" basis or, in other words, on a basis *which does not depend for its validity or otherwise on any Phychological theories whatsoever and does not consequently rise or fall along with any one of them*. These Economic Philosophies thus represent the *best* of that part of Modern Economic Science *in this sphere*—as distinct from "Price Economics",—which still stands its ground when almost all the Phychological Theories that the Economists had ever made use of in their works have given way at the present time. A full understanding of these Economic Philosophies is, therefore, necessary in order to form an idea of what Modern Economics, with its present limited resources, has to say with regard to "What ought to be" in Economic matters. I hope the present work would prove of some use to the students of Economics and Politics as well as to the general readers from that point of view.

There has been a slight mistake in the page numbering of this work which will be corrected in the next edition.

My thanks are due to my friend MR. B. P. JAIN M.A., LL.B., Assistant Secretary, Indian Chamber of Commerce, Calcutta, who has obliged me by giving some important suggestions for the improvement of this work.

**Ratish Mohan Agarwala.**

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# **The Economic Philosophies of Marshall, Pigou and J. A. Hobson.**

## **Chapter I. The Economic Philosophies of Dr. Alfred Marshall.**

In this work we propose to describe the Economic Philosophies of Dr. Alfred Marshall, Prof A. C. Pigou and J. A. Hobson as we find them propounded in their respective works. We would divide our study into three chapters. In this chapter, we would give a short exposition of the Economic Philosophy of Dr. Marshall, the greatest "Price Economist" that the world has produced in recent times.

It may be observed, to begin with, that due to certain historical causes which we would describe in detail in our forthcoming publication, "The Science of Economics," a great transformation had taken place in the Methodology of Economic Science by the time when Dr. Marshall appeared as compared to what it was in the times of Adam Smith and Ricardo. In the earlier stages of the growth of this Science, the usual

practice was to make a *combined* study of a Positive "Science of Political Economy" and a Normative "Art of Political Economy." The former study started with "Wealth" as its "Subject-matter" and laid down "Laws" with regard to the way in which "Wealth" *is or tends to be* produced, exchanged, distributed or consumed. The latter study started by first putting before itself a *right* "Economic Ideal", and then laid down "Precepts" with regard to social and individual conduct in the light thereof. By the time when Dr. Marshall appeared, all this had changed. Political Economy, or Economics as it now came to be known, had become a wholly "Positive" Science and consisted of two studies which, after a terminology recently brought into prominence by Prof. Frank A. Fetter,<sup>(1)</sup> might be referred to as "Positive Price Economics" and "Positive Welfare Economics" respectively. "*Positive Price Economics*" comprised within its domain all that sphere of study which was formerly included in the "*Positive Science of Political Economy*". "Positive Welfare Economics", on the other hand, was a quite new thing. *It was a device evolved by the Economists to present the "Art of Political Economy" in the form of a wholly*

*"Positive" study.* It consisted of four parts. First, it declared Economics to be *a wholly Positive Science*. Secondly, it determined what the *right* "Economic Ideal" for the purposes of Economic Art really was and then declared the *concept in terms of which that Ideal was expressed* to be the *right* "Subject-matter" of Economic Science. Thirdly it formulated a number of "Laws" with regard to the way in which the "contents" of that "concept" *increased or could be made to increase*. And finally, those "Laws" were "applied" to actual practice in such a way that the "contents" of that "concept" *may increase* to the greatest possible extent. The *right* "Subject-matter" of Economic Science from the point of view of "Positive Welfare Economics" thus indicated what the *right* "Economic Ideal" for the purposes of Economic Art really was; the "Laws" of Economic Science in this sphere indicated how that Ideal *could be attained*; and the "application" of those "Laws" shewed what society and individuals *should do* so that the said "Economic Ideal" may be attained to the greatest possible extent. *In this way, Economics could claim and declare itself to be a wholly "Positive Science" and still prescribe all sorts of "Precepts" or "Maxims"*

*with regard to "what ought to be" in economic matters !*

This was then the Methodology of Economic Science at the time at which Dr. Marshall appeared. His original plan seems to have been to confine himself to the study of "Positive Price Economics" alone. Being of the "firm view", however, as Prof. A. C. Pigou puts it, "that economic science is chiefly valuable..... as a handmaid of ethics and a servant of practice", he soon changed his view and resolutely set out "to mould his work along lines conforming to that ideal."<sup>(2)</sup> In doing so, he had first to decide whether he would make a separate or a combined study of "Price Economics" and "Economic Philosophy." Since the usual practice uptill then had been in favour of the latter alternative, he also decided to adopt the same course. He had next to decide whether he would present his "Economic Philosophy" in the form of an "Art of Political Economy," as had been done by the earlier Economists in the past and by Dr. Sidgwick in his own times, or adopt the new Methodology and present that philosophy in the form of "Positive Welfare Economics." The latter course he thought was more in

accordance with "English traditions," as they had recently grown-up, of treating Economics as a purely "Positive Science," the chief function of which was to determine "what are likely to be the immediate and ultimate effects of various groups of causes." (3) He consequently decided to adopt this course and to present his Economic Philosophy in the form of "Positive Welfare Economics." Having thus made up his mind on both these points, Dr Marshall then proceeded to make a *combined* study of "Positive Price Economics" and "Positive Welfare Economics" under a *common* Science of Economics which could in that case be declared to be a wholly "Positive" Science !

What was then going to be the "Subject-matter" of this *common* science of Economics ? If "Wealth" must be the *permanent* "Subject-matter" of "Positive Price Economics" while the "Subject-matter" of "Positive Welfare Economics" can only be *the concept in terms of which the right Economic Ideal could be expressed*, how was the "Subject-matter" of the *common* science of Economics which comprised both these studies within its domain to be determined ? No Economist since the time of Bastiat who

first laid down the foundations of "Positive Welfare Economics" had been able to solve this problem satisfactorily. Bastiat had held that "Desire-Satisfaction" and not "Wealth" was the *right* "Subject-matter" of Political Economy as he thought that the "satisfaction" of all legitimate "Desires" and not the mere "Maximum Production of Wealth" in terms of exchangeable or exchange value was the *right* Economic Ideal for the purposes of the "Art of Political Economy" and consequently for those of "Positive Welfare Economics." *That* "Subject-matter" could not, however, serve as the *right* one from the point of view of "Positive Price Economics" which he had studied along with "Positive Welfare Economics" under a *common* science of Political Economy in his work! Prof. W. S. Jevons and the other "Utility" Economists similarly had held that "Utility" and not "Wealth" was the *right* "Subject-matter" of Economics as they believed that the Maximum Production of "Utility" rather than that of "Wealth" as measured by its exchange-value was the *right* Economic Ideal for the purposes of Economic Art and consequently for those of "Positive Welfare Economics." But "Utility" was evidently not the right "Subject-

matter" of "Positive Price Economics" which they studied along with "Positive Welfare Economics" under a *common* science of Economics in their works ! Dr. Marshall saw through this difficulty and set out to solve it in the following way.

Dr. Marshall began by observing that "Wealth" and nothing else could be the *right* "Subject-matter" of "Positive Price Economics." The term "Wealth" must consequently form an *essential* part of the "Subject-matter" of Economic science. The *right* "Economic Ideal" from the point of view of "Economic Art," on the other hand, according to Dr. Marshall, was the Maximisation of the "Material Wellbeing of the Community as a whole," <sup>(4)</sup> and the *right* "Subject-matter" of "Positive Welfare Economics" could consequently be only "Material Wellbeing." The term "Material Wellbeing" must also consequently form an *essential* part of the "Subject-matter" of Economic science. Dr. Marshall, therefore, held that if both "Positive Price Economics" and "Positive Welfare Economics" *have* to be studied *jointly* under a *common* Science of Economics, its "Subject-matter" must be so stated that both "Wealth"

and "Material Wellbeing" may form an integral part thereof. He consequently declared that "Political Economy or Economics is a study of mankind in the ordinary business of life ; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of Wellbeing. Thus it is on the one side a study of wealth ; and on the other, and more important side, a part of the study of man".<sup>(5)</sup> In order then to explain how this *double* "Subject-matter" of Economics was to work itself out in actual practice, Dr. Marshall further pointed out that "the customary point of view of the business man is that which is most convenient for the economist to adopt when discussing the production of goods for a market and the causes which govern their exchange-value. But there is a broader point of view which the business man, no less than the economist, must adopt when he studies the causes which govern the material wellbeing of the community as a whole".<sup>(6)</sup> Not only this, he even defined those terms which were to be regularly used in the two studies, such as "Wealth", "Capital", "Income", and others, both from the point of view of the "market"



as well as from that of "inquiries into the material wellbeing of society as a whole." (7) In this way, even though the two subjects were going to be studied jointly, the viewpoint of each one of them was to be kept quite distinct from that of the other in every way.

Having thus prepared his ground, Dr. Marshall next gave a joint exposition of his "Positive Price Economics" and "Positive Welfare Economics." The former part of his work, consisting of his famous "Theory of Value" with its "Pair of Scissors" analogy; his analysis of the concepts of the "Margins," "Consumers' Surplus" and "Quasi-rent" and his studies in monetary, banking and commercial problems, was so remarkable that it at once revived the memory of the good old days of the glory of Economic Science. As we are not concerned here, however, with this part of Dr. Marshall's work, we would pass over it and only give here an exposition of his Economic Philosophy as he presented it through the latter part thereof.

The first problem that we have to consider in connection with Dr. Marshall's Economic

Philosophy is as to how he arrived at the Economic Ideal of maximising the "Material Wellbeing" of a community and what according to him were the "Contents" of this "Wellbeing" in actual practice. It may be pointed out in this respect that at the time at which Dr. Marshall appeared, both the "Hedonic" Psychology and the "Utilitarian" Ethics of Bentham were receiving hammer-blows at the hands of William James, Veblen and other Instinctivists. The position of both "Hedonism" and "Utilitarianism" had consequently become so untenable that Dr. Marshall thought it fit to declare that he was not an adherent either of the one or of the other.<sup>(8)</sup> The Instinct Psychology of William James and McDougall, on the other hand, and the New Utilitarian Ethics associated with it, were so recent in their origin that Dr. Marshall thought it was too early to form any judgment about their merit. Dr. Marshall, therefore, decided, as Prof. J. M. Keynes points out, not to link his economic studies to "any ethical doctrine in particular."<sup>(9)</sup> He consequently put forth a wholly "Concrete" Economic Ideal of maximising the "Material Wellbeing" of a community and instead of identifying the term "Wellbeing" with "Pleasure," he used a

*neutral* label "Satisfaction" to represent its "Content," leaving it to the Psychologists to explain what that "Content" was, *if and when they were actually able to do so at all !*

That being done, Dr. Marshall next proceeded to lay down a number of "Laws" or "Positive Statements" with regard to the way in which the "Material Wellbeing of a Community" *increases or can be made to increase* in different ways and then apply them to actual practice. As the "Material Wellbeing" of a community could roughly be defined as that part of social wellbeing which is directly or indirectly derived from "Wealth," Marshall studied how it *increases or can be made to increase* in relation to three different factors connected with "Wealth," namely, first, the nature and amount of "Wealth" that is to be produced ; secondly, the way in which the process of Wealth Production requires to be regulated ; and thirdly, the way in which Wealth is to be distributed. We shall study the relation, according to Dr. Marshall, of "Material Wellbeing" to each one of these three ~~factors~~ separately below.

## **I. The Relation of Material Well-being to the Nature and Amount of Wealth that is to be Produced.**

We shall first describe what, according to Dr. Marshall, was the relation of "Material Well-being" to the nature and amount of Wealth that is to be produced.

We may begin by pointing out that though Dr. Marshall had set out to study the causes of "Material Wellbeing" alone, he attached the greatest importance to the "Spiritual" side of life, specially to the cultivation of nobility and elevation of character. "Gradually, however" wrote he in a letter to Prof. James Ward, "the increasing urgency of economic studies as a means towards human wellbeing grew upon me.....not so much in relation to the growth of wealth as to the quality of life."<sup>(10)</sup> "Spiritual" progress was, however, impossible without "Material" prosperity and that for two different reasons. In the first place, the amount of a person's income "exerted a very great influence on his character." In the second place, "the conditions which surround extreme poverty" always tend to "deaden the higher faculties." *The study of*

*the causes of the "material" prosperity and poverty of nations and individuals was consequently "the study of the causes of the degradation of a large part of mankind."*<sup>(11)</sup> "Wealth" was, therefore, important not only because it increased "Material Wellbeing" but also because by removing "Poverty," it prevented the "Spiritual Degradation" of humanity. That did not, however, make "Wealth" the *only* important thing in life. For, in the first place, a person's happiness depended "more on his physical, mental and moral health than on his external conditions." In the second place, even among those external conditions, many that were of chief importance to his real happiness were "apt to be omitted from an inventory of his wealth"—the chief of them being the "free gifts of nature" and the "elements of collective wealth."<sup>(12)</sup> Account should consequently be taken of all these factors also, along with that of "Wealth," in estimating the *total* amount of weal or woe enjoyed or suffered by different nations and individuals.

After having made all this clear, Dr. Marshall next studied the relation of "Material Wellbeing" to the nature and amount of "Wealth"

that is to be produced. He pointed out in this connection that "so long as wealth is applied to provide for every family the necessities of life and culture, and an abundance of the higher forms of enjoyment for collective use, so long the pursuit of wealth is a noble aim." When, however, the necessities of life are once provided, "every one should seek to increase the beauty of things in his possession rather than their number or their magnificence." And as a final warning to those who may be disposed to disregard this advice, he pointed out that "if instead of seeking for a higher standard of beauty, we spend our growing resources on increasing the complexity and intricacy of our domestic goods, we gain thereby no true benefit, no lasting happiness."<sup>(13)</sup>

## **II. The Relation of Material Wellbeing to the Way in which the Process of Wealth Production Requires to be Regulated.**

We may now pass on to consider the relation of "Material Wellbeing" to the way in which the process of Wealth Production requires to be

regulated. This relation Dr. Marshall studied by pointing out that "Material Wellbeing" increases according as certain values and interests of human life are protected and promoted in the process of Wealth Production. These values and interests of human life may be described as follows :—

First, there are the "Happiness" and the "Personality" of the labourers engaged in the process of Wealth Production the protection and advancement of which increases Material Wellbeing.

Secondly, there is the integrity of the labourers' "Family," the maintenance of which against all hostile influences increases "Material Wellbeing." He described the "Family" as "the tree whose fruits and flowers contribute much more than half to the sum-total of all that is known of beauty and happiness by the people in general and specially by the working classes." (14) The maintenance of such a useful institution was consequently an extremely desirable thing.

Thirdly, there is the "general welfare" of the labourers engaged in the process of Wealth

Production the protection or advancement of which increases "Material Wellbeing." This "general welfare" of the labourers depends upon the number of hours that they have to work ; the nature of their work ; the physical conditions in which they have to work ; the wear and tear of body or mind or both which their work involves ; their standard of living ; and the amount of leisure, rest and repose which they are able to get.<sup>(15)</sup>

Fourthly, there are the interests of the other members of society, besides the producers, the protection or advancement of which increases "Material Wellbeing." These interests of the "non-producers" include the right of children to get sufficient space for "healthy play" and of adults to get a free supply of "air and light" for their houses and a place for "peaceful repose out of doors" somewhere in their neighbourhood.<sup>(16)</sup>

And finally, there are the interests of the future generations, the protection and advancement of which increases "Material-Wellbeing." There were two ways in which these interests were to be protected or advanced. In the first place, women were not to be put to the "strain



and stress of unfeminine work" which "hardens" them and makes them incapable of bringing up their children with the same tenderness and unselfishness as they would have otherwise done.<sup>(17)</sup> In the second place, the "extravagantly long hours of duty away from home" for both men and women were to be curtailed so that—apart from other things,—they may get sufficient opportunity to look after the general training of their children and convert them into "able workers and good citizens" as far as possible.<sup>(18)</sup>

### **III. The Relation of Material Wellbeing to the Way in which Wealth is to be Distributed.**

Finally, we shall describe what, according to Dr. Marshall, was the relation of "Material Wellbeing" to the way in which "Wealth" is to be distributed.

It may be pointed out in this connection that since Dr. Marshall believed that "Poverty" was the chief cause of the "Degradation" of a large part of mankind, he laid down that, subject to

the condition that the amount of the National Dividend was to be kept in tact, "every increase in the wealth of the working classes adds to the fulness and nobility of human life."<sup>(19)</sup> Looked at from this point of view, the present inequalities of wealth, said he, were a "serious flaw in our economic organization." Any diminution of them, therefore, which can be attained by means that "would not sap the springs of free initiative and strength of character" and "would not, therefore, materially check the growth of the national dividend would seem to be a clear social gain."<sup>(20)</sup> *The "Material Wellbeing" of a community thus increases in direct proportion to the extent to which the present inequalities in the Distribution of Wealth can be reduced without leading to a diminution in the average size of the National Dividend in any way.*

These are then all the different ways in which the "Material Wellbeing" of a community, according to Dr. Marshall, *increases or can be made to increase*. It was the duty of the state and the individuals consequently to so regulate their activities that the amount of "Material Wellbeing" may be increased in all these ways to as large an extent as possible.

## The Conclusion.

This is in short the general outline of Dr. Marshall's Economic Philosophy as he presented it through his system of "Positive Welfare Economics". As would be evident from the above, a great change had now come both in the outward form as well as in the actual contents of that philosophy as compared to what they were in the times of Adam Smith and Ricardo. From Ricardo to Marshall is a long distance in the history of Economic Thought. The Methodology of Economic Science had during this period changed almost beyond recognition. Economics had become a wholly "Positive" Science and still a whole system of "Economic Philosophy" could be presented through it as an integral part thereof! Dr. Marshall adopted this Methodology and even improved upon the position taken up by Bastiat, W. S. Jevons and the other "Utility" Economists! With regard to the "Contents" of "Economic Philosophy", similarly, many new problems had arisen that required a solution. The almost exclusive attention that used to be paid to the "Exchangeable Value," the "Exchange Value" or the "Quantity" of the Annual Produce in the times of Adam Smith and

Ricardo was no longer there. Other values and interests of human life had also come to the forefront. Marshall took note of them and admitted them to a place of honour in all discussions and the consideration of all problems falling within the domain of Economic Science ! The "Economic Man" had been born during this period and had also been slain by Ruskin and other Humanists. His last obsequies were now performed by Dr. Marshall ! And finally, the Psychological problem which had recently come into prominence was causing great trouble and anxiety to the Economists. The whole structure of the Jevons-Austrian Economics as it then existed was quailing before the onslaughts of Veblen and other Instinctivists. The orthodox Economists did not know what to do. For a time it appeared that everything would be lost ! In company with Irving Fisher, Wicksteed, the later Austrians and Sidgwick, Marshall then came forward to the rescue of Economic Science and after reconstructing the whole of it on a purely "Concrete" basis, raised it to such a high pitch of excellence that it could once more command the respect and admiration of everybody. It is not for nothing then that the whole world of orthodox Econo-

mists at the present time cherishes the memory of Dr. Marshall with love and gratitude and has come to profess allegiance to him to such an extent that he is universally and rightly regarded as the Leader of all the Neo-Classicals—a rare distinction for any man of letters these days to have acquired within the course of his own life-time !



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## Chapter II. The Economic Philosophy of Prof. A. C. Pigou.

In this chapter we would describe the Economic Philosophy of Prof. A. C. Pigou as we find it propounded in his famous treatise, "The Economics of Welfare", which has been described by Prof. Frank H. Knight as "Economics at its Best"<sup>(1)</sup> and by Dr. Suranyi-Unger as "one of the most prized possessions of world economic science".<sup>(2)</sup>

Prof. Pigou, it may be observed, *is the first Economist in the whole history of Economic Thought who separated "Positive Price Economics" and "Positive Welfare Economics" into two distinct studies and gave in his work, "The Economics of Welfare", a separate and systematic exposition of the latter in its most scientific form.* His work, therefore, was quite *unique in the whole history of Economic Literature at the time when it appeared.* Since "Positive Welfare Economics" is only "Economic Philosophy" in a "Positive" form, Prof. Pigou's work deals wholly with "Economic Philosophy". In order, therefore, to give a

clear idea of Prof. Pigou's "Economic Philosophy" as well as to shew how the whole technique of "Positive Welfare Economics", as we have described it in the previous chapter,<sup>(3)</sup> works itself out in actual practice, we would take up the main characteristics of that technique and divide our subject in accordance therewith into four parts, dealing first, with the "Positive Character of Welfare Economics"; secondly, with the "Subject-matter" of "Welfare Economics"; thirdly, with the "Laws" of "Welfare Economics"; and finally, with the "Application" of those "Laws" to actual practice.

## I. The 'Positive' Character of 'Welfare Economics'.

The first characteristic of the technique of "Positive Welfare Economics" was that "Economics" in accordance with it should be declared to be a *wholly "Positive" Science*. Let us see what Prof. Pigou had to say in this connection.

Prof. Pigou, it may be observed, took the earliest opportunity to point out that "Economics" was "a positive science of what is and tends to be, not a normative science of what



ought to be.”<sup>(4)</sup> Keeping the fact in mind, however, that he was going to study “Welfare Economics” and not “Price Economics,” he at once made it clear that “the type of science that the economist will endeavour to develop must be one adapted to form the basis of an art.”<sup>(5)</sup>

*“Welfare Economics”, according to Prof. Pigou, was thus a “Positive Science of Economics” evolved in such a way that an “Art of Political Economy” could be constructed on the basis thereof !*

## II. The ‘Subject-matter’ of ‘Welfare Economics’.

The second characteristic of the technique of “Positive Welfare Economics” was that it should first determine what the *right* “Economic Ideal” for the purposes of “Economic Art” was and then declare the *concept in terms of which that Ideal was expressed* to be the *right* “Subject-matter” of Economic Science. Let us see what “Economic Ideal” Prof. Pigou had to advocate and what consequently was the “Subject-matter” of “Economic Science”, according to him.

Prof. Pigou, it may be observed, could get no help either from "Psychology" or from "Ethics" in the determination of the *right* "Economic Ideal" for the purposes of "Economic Art". Both the "Hedonic Psychology" and the "Utilitarian Ethics" of Bentham had been discarded by most of the Psychologists and Economists by the time Prof. Pigou came into the field. When he himself examined them independently in an Article in the "Economic Journal" in 1903, he found "Psychological Hedonism" to be a quite "untenable and exploded doctrine".<sup>(6)</sup> He also consequently discarded it and along with it "Ethical Hedonism" which was based thereupon. The Instinct Psychology of William James and McDougall, on the other hand, does not seem to have appealed to him much. Like Irving Fisher, Wicksteed, Sidgwick and Dr. Marshall, therefore, Prof. Pigou also adopted a purely "Concrete" attitude. In accordance with this attitude, Prof. Pigou first used the term "Welfare" to represent all those things in individual and social life that were "desirable" and then declared that "the goal sought is to make more easy practical measures to promote welfare".<sup>(7)</sup> "Welfare as a whole", however, was "a thing of very wide range". The study

of all the groups of causes by which it may be affected was consequently "a task so enormous and complicated as to be quite impracticable". Prof. Pigou, therefore, decided to limit his study to that part of "Welfare" whose causes could be more readily analysed. He consequently limited it to that part of social welfare "that can be brought directly or indirectly into relation with the measuring rod of money". This part of "Welfare" he called "Economic Welfare".<sup>(8)</sup> In the absence of a satisfactory Psychological Theory, however, he could not say what exactly the "Contents" of this "Economic Welfare" really were. Nevertheless it was clear that this part of "Welfare" at least could consist only of some "desirable" *experiences*. Having already discarded the "Hedonic" Psychology, he could not identify these *experiences* with "Pleasure". Following the precedent set by Prof. Irving Fisher, Dr. Sidgwick and Dr. Marshall, Prof. Pigou consequently used a *neutral* label "*Satisfaction*" to represent any one of these *experiences*. "Economic Welfare" could then be described as all those *desirable* "Satisfactions" that can be brought into relation with the measuring rod of money. Since the "desirability" or otherwise of any kinds of "Satisfactions" could not be

exactly determined in the absence of a satisfactory "Ethical Standard", Prof. Pigou got over this difficulty by *presuming* that all "Satisfactions" *were* "desirable" unless they were *proved* to be otherwise. Having made all this clear, Prof. Pigou felt himself free to state that *the "goal sought" was to "promote" "Economic Welfare", to as large an extent as possible.*

What was then the "Subject-matter" of Economic Science from the point of view of Prof. Pigou's "Welfare Economics"? It could only be "Economic Welfare". Prof. Pigou consequently declared that *"Economic Welfare.....is the subject-matter of economic science."*<sup>(9)</sup>

It must be clearly understood, however, that in declaring "Economic Welfare" to be the "Subject-matter," of Economic Science, Prof. Pigou was only using the conventional language of the peculiar technique of "Positive Welfare Economics". When once the requirements of that technique, however, had been fulfilled, he himself explicitly told his readers that the "purpose" of his study, which was "essentially practical", was to bring "into clear light some of the ways in which it now is, or eventually may

become, feasible for governments to control the play of economic forces in such a way as to promote the economic welfare, and, through that, the total welfare, of their citizens as a whole".<sup>(10)</sup>

Giving up the conventional language of "Positive Welfare Economics", then, it may be plainly stated that *the right "Economic Ideal" for the purposes of "Economic Art", according to Prof. Pigou, was the "promotion" of "Economic Welfare" as we have defined it above.*

But though the "promotion" of "Economic Welfare" was the "goal" of "Welfare Economics", it was not, according to Prof. Pigou, to be regarded as an *absolute* goal. For "Economic Welfare", said he, consists only of a limited group of "Satisfactions". "Conscious life", on the other hand, was a "complex of many elements", and included "not only these satisfactions and dissatisfactions "but also "other satisfactions and dissatisfactions, and along with them, cognitions, emotions and desires".<sup>(11)</sup> All these other elements of conscious life then that do not contribute to "Economic Welfare" belong to the study of "Non-economic Welfare". Besides this, there were two other factors, namely, the "Personality" of human beings<sup>(12)</sup>

and the "Defence" of a country,<sup>(13)</sup> both of which also contributed to "Non-economic Welfare" and consequently belonged to the study of that Welfare. But though all these factors are thus excluded from the study of "Economic Welfare", due consideration should be paid to them while making that study whenever it is observed that a conflict has actually arisen between the two kinds of "Welfares". Such conflicts would generally be seen to arise either through the manner in which income is earned or spent<sup>(14)</sup> or while choosing between the rival claims of the "Opulence" as opposed to the "Defence" of a country.<sup>(15)</sup> In all such cases, the "promotion" of "Economic Welfare" can be regarded as an "Ideal" only subject to the condition that after making full allowance for the injury done to "Non-economic Welfare", it still contributes something to "Total Welfare", if at all.

### **III. The "Laws" of "Welfare Economics".**

The third characteristic of the technique of "Positive Welfare Economics" was the formulation of a number of "Laws" with regard to the

way in which the "contents" of the "concept" in terms of which the *right* "Economic Ideal" was expressed and which consequently formed the "Subject-matter" of Economic Science, *increased* or *could be made to increase*. Let us see what Prof. Pigou did in this connection.

Prof. Pigou, it may be observed, having declared "Economic Welfare" to be the "Subject-matter" of Economic Science, next proceeded to study how the "magnitude" of Economic Welfare "would be affected by the introduction of causes which it is in the power of statesmen or private individuals to call into being".<sup>(16)</sup> This he did by laying down four "Laws" with regard to the way in which "Economic Welfare" *increases* or *can be made to increase*, which may be described as follows:—

In the first place, Prof. Pigou laid down a "Law" showing the relation between "Economic Welfare" and the "Size" of the "National Dividend". This "Law" stated that "provided the dividend accruing to the poor is not diminished, increases in the size of the aggregate national dividend, if they occur in isolation without anything else whatever happening, must involve *increases in economic welfare*".<sup>(17)</sup> This means,

in other words, that the "Economic Welfare" of a community *increases* or *can be made to increase* if the "Size" of the "National Dividend", as measured by its exchange-value in accordance with elaborate rules which Prof. Pigou laid down in connection therewith, *increases* or *can be made to increase*.

In the second place, Prof. Pigou laid down a "Law" showing the relation between "Economic Welfare" and the "Share" of the National Dividend accruing to the "Poor". This Law stated that "any cause which increases the absolute share of real income in the hands of the poor, provided that it does not lead to a contraction in the size of the national dividend from any point of view, will, in general, increase economic welfare".<sup>(18)</sup> The "Economic Welfare" of a community thus *increases* or *can be made to increase* if the "Share" of the "National Dividend" accruing to the "Poor" *increases* or *can be made to increase*, without decreasing the aggregate "Size" of the National Dividend in any way.

In the third place, Prof. Pigou laid down a "Law" showing the relation between "Economic Welfare" and the "Way" in which the "National Dividend" is "produced" and "consumed".



This "Law" stated that "the economic welfare of a community" varies in direct proportion to "the balance of satisfactions derived from the use of the national dividend over the dissatisfactions involved in the making of it".<sup>(19)</sup> The "Economic Welfare" of a Community, according to this "Law", thus *increases* or *can be made to increase* if the "Satisfactions" derived through the "Consumptive Process" *increase* or *can be made to increase*, as is the case when things are or can be consumed in the midst of a familiar group of people; or the "Dissatisfactions" involved in the "Productive Process" *decrease* or *can be made to decrease*, as is the case when "forced" labour and the "exploitation" of the labourers are or can be abolished or any incidental injuries done to the labourers, to some part or the whole of society, or to the future generations, through that process, are or can be decreased in any way.

And finally, Prof. Pigou laid down a "Law" showing the relation between "Economic Welfare" and the "Variability" of the National Dividend. This "Law" stated that "any cause which diminishes the variability of the National Dividend, provided that it neither diminishes

its volume nor injures its distribution, will in general increase economic welfare". This means, in other words, that "Economic Welfare" increases or can be made to increase if the Variability of the National Dividend diminishes or can be made to diminish without decreasing the size or increasing the inequality in the distribution of the National Dividend in any way.

#### IV. The "Application" of the Above "Laws" to Actual Practice.

The last characteristic of the technique of "Positive Welfare Economics" was that, after all its "Laws" had been formulated, they were to be "applied" to actual practice in such a way that the "contents" of the "concept" in terms of which the "Economic Ideal" was expressed and which consequently constituted the "Subject-matter" of Economic Science, *may be increased* to the greatest possible extent. Let us see how Prof. Pigou applied his own "Laws" to actual practice and what he thought the state and the individuals *should do* in the light thereof.

Prof. Pigou began his study of the "appli-

cation" of his "Laws" to actual practice by examining the "System of Natural Liberty", as it had been advocated by Adam Smith, and pointed out that the latter had really no justification to suppose that the "Self-interest" of individuals under that "System" would lead them to bring about the Maximum Production of the Annual Produce as measured by its Exchangeable Value. For what it can lead them to is the "Maximisation" of the "Private" and not of the "Social" Net Product of their operations,<sup>(22)</sup> and it was, according to him, the latter and not the former, which ought to be maximised if the greatest amount of the National Dividend was to be produced. Apart from this, moreover, the "Self-interest" of individuals could not bring about greater equality in the Distribution of the National Dividend or lead to the maximisation of the "balance of satisfactions and dissatisfactions" derived through the Productive and the Consumptive processes or reduce the Variability of the National Dividend from year to year. Prof. Pigou found it necessary, therefore, to greatly "modify" and "guard" the "System of Natural Liberty" by "special laws" and to compel the "Self-interest" of individuals to work in socially beneficial channels by means of

“adjustment of institutions” and “coercive legal devices”(23) before it can lead to the “Maximisation” of “Economic Welfare” in accordance with the “Laws” of “Welfare Economics” that we have already described above.

## The Conclusion.

This is in short the general outline of Prof. Pigou's Economic Philosophy as put forth through his system of “Positive Welfare Economics”. The masterly way in which Prof. Pigou did his work and the great intellect he brought to bear upon it filled the hearts of Economists throughout the world with genuine pleasure. “Positive Welfare Economics” was no longer an unsystematic study, mixed up with “Positive Price Economics”, from which it could not always be easily distinguished. It was now a wholly separate and distinct branch of Economic Science, complete in itself from the beginning to the end. The credit of having raised it to that status and stature belongs to Prof. Pigou. That was not, however, the main thing on which Prof. Pigou's fame rests. *The chief merit of Prof. Pigou lies in the fact that he raised the process of economic*

*reasoning to the highest scientific pitch that it has ever yet attained !* Adam Smith could bewitch and electrify ! Ricardo could overpower and subdue ! Marshall could make you fall at his feet and worship him ! But who alone amongst the Economists except Prof. Pigou could make you wonder while perusing his work whether you were reading a treatise on "Economics" or an any of the Natural or the Physical Sciences ? *Looked at from this point of view,* the "Economics of Welfare" is decidedly "Economics at its Best" while Prof. Pigou himself may be declared to be the "Scientist at his Best" that the economic world has ever yet produced ! And that is perhaps the highest tribute that can be paid to a man of science at any time whatsoever

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## Chapter III. The Economic Philosophy of J. A. Hobson.

In this last chapter of the present work, we would describe the Economic Philosophy of J. A. Hobson, the greatest "Social Economist" that the world has produced in recent times.

Hobson, it may be observed, was one of those rare men who, besides being geniuses, read so extensively that they come to know almost everything and acquire so many different interests in life that they cannot be easily put into any one category. Their vast learning turns them into *eclectic* philosophers. Their various interests widen the scope of their activities. Their genius further helps them to arrive at right decisions. They thus generally turn out to be the best type of thinkers and make a name for themselves in more than one sphere of thought. Hobson was true to his type to a remarkable degree. He combined in himself the best of everything in all his predecessors and could be described by turns as a "Pure Economic Theorist", a "Price Economist", a "Welfare Economist", an "Ethical Economist", a "Socialist", a Humanist", a "Sociologist", a "Social Philosopher", a "Politi-

cian" and an "Internationalist" ! To call such a man a mere "Economist" was not, therefore, enough and Dr. Marshall used consequently to fondly refer to him as a "Social Economist" and respected him as such !

It is the Economic Philosophy of such an all-round accomplished genius then that we are now going to study. Hobson embodied this philosophy, partly in the form of "Positive Welfare Economics", in accordance with the current Methodology of Economic Science, <sup>(1)</sup> and partly as a frankly "Ethical" study, in three of his most important works, namely, "Work and Wealth", "Freethought in the Social Sciences" and "Wealth and Life". This philosophy cannot, therefore, exactly fit into any classification based upon the technique of "Positive Welfare Economics". We would consequently describe it in exactly the same form in which we find it propounded in Hobson's works without classifying it into any broad categories.

We may begin by pointing out that Hobson described the "Subject-matter" of his study in this sphere as "the ethical or humanist appraisal of the modern economic system" <sup>(2)</sup> or, in other words, as the study of "the relations between



economic and ethical or human values".<sup>(3)</sup> Identifying the term "Economic Values" then with "Quantities of Money", as Hobson does, <sup>(4)</sup> the "Subject-matter" of his study could in more particular terms be stated to be the study of the relation between "Quantities of Money" and "Ethical Values".

Before any such study could be made, however, it was necessary to have a satisfactory criterion of "Ethical Values." Hobson, therefore, next set out to solve this problem. In this connection, he first pointed out that the "Hedonic" Psychology, which had already been rejected by most of the Psychologists and Economists of the world, was quite untenable<sup>(5)</sup> and that consequently the "Utilitarian Standard" of Ethics, which Bentham and J. S. Mill had constructed on the basis of that Psychology, could not also be accepted. As no other satisfactory alternative thereto had also till then been offered by the Moral Philosophers, Hobson decided to construct a new "Ethical Standard" of his own for the purposes of his study. Proceeding then to do so, he pointed out that all "Ethical Values" could in the long run consist only of some kinds of "Conscious Satisfactions". In

order, therefore, to arrive at a true criterion of "Ethical Values", he proposed that all "activities, efforts, achievements" should first be evaluated in terms of the contribution they make to the *aggregate* of "Conscious Satisfactions". These "Conscious Satisfactions" should then be put to the test of some standard of the "Desirable". "What can that standard be? Each man's various and changing preferences? That subjectiveness spells intellectual chaos".<sup>(6)</sup> Hobson, therefore, suggested that this standard of the "Desirable" should be the development of "Organic Unity, the good life as a whole, personality in its widest sense".<sup>(7)</sup> All those "Conscious Satisfactions" then that stand the test of this standard of the "Desirable" should be regarded as being "Ordered, Organised Values",<sup>(8)</sup> and as contributing to "Organic Welfare". Hobson consequently declared the "Maximisation" of this "Organic Welfare" as the "Ethical End" of all our actions and the "Standard" or "Organon of human valuation"<sup>(9)</sup>—"Organic Welfare" consisting of the aggregate of "Conscious Satisfactions" as evaluated by the contribution they make to the development of "Organic Unity" or "Human Personality" in the widest sense of the term. This new "Ethical Standard" Hobson referred

to as that of the "New Utilitarianism" in order to distinguish it from the "Old Utilitarianism" of Bentham and J. S. Mill.

Having thus constructed a wholly new "Ethical Standard" for the purposes of his study, Hobson next proceeded to find out the relation of "Economic Values" to "Ethical Values" in the light thereof. In this connection, he pointed out that in order to translate the former into the latter, we had to pass through at least three different stages. First, all "Money Values" should be translated into the "concrete" saleable goods and services which they represent. Secondly, these goods and services should be resolved into their "net costs of production" and their "net utilities of consumption". And finally, these goods and services should be evaluated "by the total effects which by the terms of their production and consumption they exert upon human personalities and communities regarded as organic wholes".<sup>(10)</sup> It is only when all these stages have been passed through that it can be really determined whether any increase of "Economic Values" does or does not conform to the standard of the "Desirable." If in any particular case it is found that it does

not do so, the "total process of consumption—production" must be regarded as having been a complete "waste and error."<sup>(11)</sup> The "Economic Values" in that case would be related to goods and services which are either "Illths" or harmful to "Organic Welfare" on account of the way in which they are produced. These goods and services should not consequently be produced and consumed at all. In all other cases, "Economic Values" are related to goods and services that are really "Wealth" and lead to an increase of "Organic Welfare".<sup>(12)</sup> The problem, therefore, as to how this "Welfare" derived from "Wealth" can be increased naturally arises. Hobson consequently pointed out three different ways in which this could be done which may be described as follows :—

In the first place, the amount of "Welfare" derived from "Wealth"—as distinct from the "Illths"—can be increased by increasing the amount of that "Wealth",—as measured not by its "Exchange-Value" but by the "quantity" or the "number" of goods and services of which it is composed.

In the second place, the amount of "Welfare" derived from "Wealth" can be increased by

bringing about a "greater equalisation of incomes". (13)

And finally, the amount of "Welfare" derived from "Wealth" can be increased by "*minimising*" human "Costs" and "*maximising*" human "Utilities" in the distribution of "productive efforts", on the one hand, and the "products" themselves, on the other.<sup>(14)</sup> These "Costs" and "Utilities" Hobson interpreted as meaning the "wear and tear and disagreeable exertions" involved in the "productive process" and the "conscious satisfactions" derived through the "consumptive process" respectively.<sup>(15)</sup> Hobson further pointed out in this connection that these "Costs" and "Utilities" could be "minimised" and "maximised" respectively by distributing the former according to the "capacity" of the producers and the latter according to the "needs" of the consumers. The "true principle of economy" in this respect, therefore, said he, is expressed in the maxim "from each according to his powers, to each according to his needs", for this would assign "the lowest aggregate cost and highest aggregate utility to any product".<sup>(16)</sup>

Having thus pointed out how the "Welfare" derived from "Wealth" could be increased in

various ways, Hobson finally proceeded to construct a new "Art of Political Economy" on the basis thereof. In this connection, he first pointed out that though he was not in favour of overthrowing the whole of the present Social system, he would like to bring about a thorough-going *reform* of it, right from the international to the local sphere so that all kinds of exploitations, injustices and tyrannies may be finally put an end to. Within the setting of such a *reformed* type of the present Social System then, he next pointed out what the State and the Individuals should do in all the various spheres of their activities. And finally, Hobson shewed how the processes of Wealth Production, Consumption and Distribution should be regulated in accordance with his "New Utilitarian" Standard of Ethics so that the greatest possible contribution may be made thereby to "Organic Welfare", as we have defined it above.

## The Conclusion.

This brings us to the end of this short description of J. A. Hobson's Economic Philosophy.

That it was a unique system in every way would be evident from the above. It took the whole world by a storm. The Economists had never seen the like of it before. A most brilliant star had arisen on the economic firmament which dazzled the eyes of all onlookers from the social plane ! Nobody could understand what was the secret of that star's so much dazzling powers and none could, therefore, imitate him while his "double" had not been born at all ! So he became a *Sui Generis* ! Marshall could have a big following but he himself had to be an admirer of Hobson ! Pigou might have conquered the whole world but whenever he paid a visit to Hampstead, he must have come out with a feeling that *if he were not a Pigou, he would have liked to be a Hobson* ! such was this J. A. Hobson— a Genius, Learned and Humane ! But Hobson is no more ! So we also part till we meet again on a slightly different plane !



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Cf. also "Work and Wealth", P. 349.
11. "Wealth and Life", Introductory Chapter, P. XXIV.
12. "Work and Wealth", Preface, P. V.
13. "Work and Wealth", P. 317. Cf. Preface, P. V.
14. "Wealth and Life", P. 431.
15. "Wealth and Life", Introductory Chapter, P. VII.
16. "Freethought in the Social Sciences", (1926), P. 131.



**FINIS.**









